

PUBLIC DISCLOSURE

MARCH 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HUDSON SAVINGS BANK

42 MAIN STREET
HUDSON, MA 01749

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

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| <p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p> |
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **HUDSON SAVINGS BANK** prepared by the Massachusetts Division of Banks, the institution's supervisory agency, as of **MARCH 3, 2003**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "High Satisfactory"

The bank's overall CRA performance reflects management's ongoing commitment in meeting the credit needs of the assessment area. The High Satisfactory rating was based on three performance criteria of the CRA Large Institution Examination procedures including the Lending, Investment and Services tests. This is the first time that the bank has been evaluated under these procedures. The Lending Test covers the period January 1, 2000, through December 31, 2002. The Investment Test and the Service Test also cover the period January 1, 2000 through December 31, 2002. The bank's performance in each of these areas is summarized below.

Lending Test

Hudson Savings Bank's lending levels reflect a good responsiveness to its assessment area's credit needs. The bank originated a majority of its HMDA-reportable loans as well as its small business loans within its assessment area. The geographic distribution of HMDA-reportable and small business loans reflects a reasonable penetration throughout the assessment area. The lending distribution by borrower profile shows an excellent penetration among customers of various income levels, especially when compared to the aggregate. The bank continues to be the number one lender to low and moderate-income borrowers within its assessment area. The bank's use of innovative and flexible-lending products was considered excellent in meeting the assessment area's credit needs particularly those of low and moderate-income individuals and small businesses. However, the bank has made a marginally adequate level of community development loans for an institution of its size and resources. The bank's fair lending performance was found to be strong at this time. Therefore, the institution's lending performance receives an overall rating of High Satisfactory.

Investment Test

Hudson Savings Bank has a good level of qualified community development investments and grants. The bank uses innovative and/or complex investments to help support community development initiatives. The bank has also exhibited good responsiveness to credit and community economic development needs. Therefore, the bank's investment test performance is considered to be High Satisfactory.

Service Test

Hudson Savings Bank's systems for delivering retail-banking services are readily accessible to geographies and individuals of different income levels throughout its assessment area, including those of low and moderate income. The bank's directors, officers and employees have provided a high level of service activities primarily for community development purposes and affordable housing and are related to the provision of financial services. Therefore, the bank's service activities receive an overall rating of High Satisfactory.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

The following table indicates the performance level of **Hudson Savings Bank, Hudson, Massachusetts**, with respect to the lending, investment, and service tests.

| PERFORMANCE TESTS Hudson Savings Bank | | | |
|--|---------------|-----------------|--------------|
| Performance Levels | Lending Test* | Investment Test | Service Test |
| Outstanding | | | |
| High Satisfactory | X | X | X |
| Satisfactory | | | |
| Needs to Improve | | | |
| Substantial Non-Compliance | | | |

*Note: The Lending Test is weighed more heavily than the Service and Investment Tests when arriving at an overall rating.

PERFORMANCE CONTEXT

DESCRIPTION OF INSTITUTION

Hudson Savings Bank (HSB) is a Massachusetts-chartered savings bank. The bank is a wholly owned subsidiary of The Assabet Valley Bancorp, Incorporated, a mutual single bank holding company established in 1997. As of its December 31, 2002, FDIC Quarterly Call Report the bank had \$465,563,000 in total assets. Of these total assets, approximately \$337,918,000 or 72.6 percent were in the form of loans.

The composition of the bank's loan portfolio consists of residential mortgage loans, commercial real estate loans, construction and land development loans, home equity loans, loans secured by farmland, commercial loans and a wide variety of consumer loans including automobile, and personal loans. Refer to the following table for the distribution of the bank's loan portfolio.

Loan Portfolio Composition

| Loan Type | Amount (000s) | Percent |
|--|----------------------|----------------|
| Residential Mortgages | \$175,621 | 52.0 |
| Construction and Land Development Loans | \$58,091 | 17.2 |
| Commercial Real Estate | \$53,303 | 15.8 |
| Equity Lines of Credit | \$16,374 | 4.8 |
| Commercial Loans | \$16,097 | 4.8 |
| Multifamily (5 or more) Residential Properties | \$11,554 | 3.4 |
| Consumer Loans | \$6,751 | 2.0 |
| All Other Loans | \$127 | 0.0 |
| Total Gross Loans | \$337,918 | 100.0% |

Source: December 31, 2002 Consolidated Report of Condition.

The bank sells loans in the secondary market. During 2001 the bank sold 22 loans totaling \$3,680,072 and in 2002 the bank sold 29 loans totaling \$4,584,250.

Hudson Savings Bank is headquartered at 42 Main Street, Hudson, Massachusetts. The bank operates four full-service offices serving the assessment area. The office located in Clinton was opened in September 2002. The bank has Automated Teller Machines (ATMs) located at all of its full service offices. The bank is a member of the SUM Alliance and does not surcharge customers of SUM member institutions for the use of its ATMs. However, the bank maintains two freestanding ATMs that are not part of the SUM Alliance.

Hudson Savings Bank has competition within its assessment area from institutions such as Community National Bank (Hudson), Marlborough Cooperative Bank, St. Mary's Credit Union (Marlborough), Marlborough Savings Bank, Digital Credit Union (Marlborough), Hudson Municipal Employees Credit Union, and several regional and national mortgage companies. The market influence from these institutions appears to be significant, and as a result, serves to keep the bank's rates and services offered competitive.

Market share information obtained from CRA WIZ, based on 2001 aggregate performance data indicates that the bank was ranked seventh in total loans originated or purchased within its assessment area. The bank ranked first in lending to low and moderate-income applicants within the assessment area.

The bank's CRA Committee is comprised of the President & CEO, Vice President & Senior Lending Officer, Vice President/Retail Banking & Marketing Officer, Residential Loan Officer/CRA Officer, two Branch Managers, the Clerk and three Trustees of the bank. The Committee meets quarterly and is responsible for overseeing the bank's CRA and fair lending efforts.

There are no financial or legal impediments that would limit the bank's ability to meet the credit needs of the assessment area. The Division of Banks last examined the bank's performance with respect to CRA as a small bank on January 10, 2000. That examination resulted in an overall rating of Outstanding. The Federal Deposit Insurance Corporation (FDIC) last examined the bank for CRA compliance as a small bank on December 18, 2000. That examination resulted in an overall rating of Outstanding.

DESCRIPTION OF ASSESSMENT AREA

Demographic Data

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The Office of Management and Budget establishes Metropolitan Statistical Areas (MSAs) for statistical reporting purposes by federal agencies. The bank's assessment area consists of the city of Marlborough and the towns of Hudson, Berlin, Bolton and Stow. Marlborough, Hudson and Stow are located in Middlesex County. Berlin and Bolton are located in Worcester County. All municipalities are located in the Boston, MA-NH Metropolitan Statistical Area (MSA).

The assessment area contains 14 census tracts, of which one (7.1%) is moderate-income, seven (50.0%) are middle-income, five (35.8%) are upper-income and one (7.1%) has no income designation. The moderate-income census tract is located in Marlborough. The census tract with no income designation #3882.98 is in Marlborough. There are no low-income census tracts in the bank's assessment area.

Demographic data obtained from CRA WIZ, based on 1990 census data, indicates that the bank's assessment area contains a total population of 59,801 individuals. There are 23,491 housing units within the assessment area of which 62.0 percent are owner-occupied. The vast majority of the units are located in middle and upper-income census tracts. More specifically, there are only 7.5 percent owner-occupied properties in the one moderate-income census tract. Therefore, lending opportunities are very limited in this tract. Over five percent of the total households in the assessment area are below the poverty level.

The following table provides demographic information pertaining to the bank's assessment area.

| <i>Selected Housing Characteristics by Income Category of the Geography</i> | | | | | | | |
|--|-----------------------------|--------------------------|-----------------------------|------------------------------|----------------------------|----------------------------|---------------------------------|
| <i>Geographic Income Category</i> | <i>Percentage</i> | | | | | | <i>Median Home Value</i> |
| | <i>Census Tracts</i> | <i>Households</i> | <i>Housing Units</i> | <i>Owner-Occupied</i> | <i>Rental Units</i> | <i>Vacant Units</i> | |
| Moderate | 7.1 | 12.0 | 12.0 | 7.5 | 20.4 | 14.3 | \$150,100 |
| Middle | 50.0 | 57.1 | 57.2 | 53.9 | 63.1 | 58.8 | \$163,180 |
| Upper | 35.8 | 30.9 | 30.8 | 38.6 | 16.5 | 26.9 | \$213,936 |
| N/A | 7.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | N/A |
| Total or Median | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 177,211 |

Source: U.S. Census

The median housing value in the assessment area based on 1990 census data is \$177,211. However, a more accurate figure was obtained from the year-to-date 2002 housing statistics from the February 17, 2003, Bankers and Tradesman. According to this publication, median home values in the assessment area range from a low of \$265,000 in Berlin to a high of \$427,500 in Bolton. The median housing value for Hudson is \$280,000.

During September 2002, the bank opened an office in Clinton and added Clinton, Lancaster and Sterling to its assessment area. Because this examination is covering all of 2000, 2001 and 2002, the addition to the assessment area was not used for any analysis in this examination.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The institution's Lending Test performance was rated an overall "High Satisfactory" The institution's lending efforts are rated under the seven major performance criteria: Lending Activity, Geographic Distribution, Borrower Characteristics, Community Development Lending, Innovative or Flexible Lending Practices, Fair Lending and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the bank's performance.

Scope of Evaluation

The lending test evaluates an institution's record of helping to meet the credit needs of its assessment area based on an analysis of its HMDA reportable, small business and community development loans. HMDA- reportable and small business loans originated during 2000, 2001 and 2003 were included in the bank's evaluation

The data used to evaluate the bank's lending was derived from the HMDA/LAR (Home Mortgage Disclosure Act/ Loan Application Register) and the bank's CRA Disclosure Statement.

I. Lending Activity

HSB had total assets of \$466 million as of December 30, 2002. Net loans totaled \$338 million or 72.6 percent of total assets. Lending on one-to-four family residential properties represents the largest portion of the bank's loan portfolio followed by construction loans and commercial real estate loans.

The bank's net loans and leases to assets ratio was 70.9 percent as of September 30, 2002. The peer group's net loans and leases to assets ratio for the same period was 62.3 percent, placing the bank in the 74th percentile. In addition, the bank's net loans to deposits ratio was 99.7 percent for the same period. The peer group's ratio was 81.8 percent placing the bank in the 79th percentile. It should be noted that the bank has borrowed money from the Federal Home Loan Bank to assist in funding loans. The bank's ratios are higher than peer; however, it should be noted that the UBPR determines a peer ratio based on similarly sized banks nationwide without regard to regional or state differences.

HMDA-Reportable Loans

For the period reviewed, Hudson Savings Bank originated and purchased 848 HMDA-reportable loans totaling \$159 million. Of these loans, 488 representing 57.5 percent of the total loans were originated in the assessment area. By dollar amount, these loans totaled \$83 million or 51.9 percent. It should be noted that of the loans originated within the assessment area, 324 or 66.4 percent were for refinances and 28.5 percent were for conventional home purchases.

Hudson accounted for the largest percentage of originations by number with 34.1 percent, followed by Marlborough with 15.9 percent. Hudson also accounted for the largest dollar volume of originations with 28.4 percent, followed by Marlborough with 12.4 percent. Refer to the following tables for additional information regarding the bank's HMDA-reportable lending, by both number and dollar volume.

| <i>Distribution of HMDA Reportable Loans Inside and Outside of the Assessment Area</i> | | | | | | | | |
|---|-------------------------------|-----------------|--|-----------------|-------------------------------|-----------------|---|-----------------|
| <i>Year</i> | <i>Inside</i> | | | | <i>Outside</i> | | | |
| | <i>Number of Loans</i> | | <i>Dollar in Loans (000s)</i> | | <i>Number of Loans</i> | | <i>Dollars in Loans (000s)</i> | |
| | <i>#</i> | <i>%</i> | <i>\$</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>\$</i> | <i>%</i> |
| 2000 | 98 | 57.0 | 16,577 | 53.1 | 74 | 43.0 | 14,667 | 46.9 |
| 2001 | 182 | 66.9 | 27,864 | 58.6 | 90 | 33.1 | 19,711 | 41.4 |
| 2002 | 208 | 51.5 | 38,381 | 47.6 | 196 | 48.5 | 42,268 | 52.4 |
| Total | 488 | 57.5 | 82,822 | 51.9 | 360 | 42.5 | 76,646 | 48.1 |

Source: HMDA /LAR, CRA Wiz

In 2001, Hudson Savings Bank ranked 7th in market share out of 290 HMDA reportable lenders in the assessment area. The bank originated and purchased 182 loans in the assessment area giving the bank a 3.2 percent market share. The top lender in the assessment area was Washington Mutual Bank, FA with 382 loans and a 6.8 percent share of the market. According to a mortgage report prepared by the Warren Group the bank was the number two lender within its assessment area with 353 mortgage originations from January 2002 through September 2002. The number one lender was Digital Employees Federal Credit Union with 357 loans.

Small Business Lending

HSB's Small Business Loan Registers (SBLRs) for 2000, 2001 and 2002 were reviewed to determine the amount of credit extended within the assessment area. For purposes of this loan register, a small business loan is defined as "a loan with an original amount of \$1 million or less that is: secured by non-farm nonresidential properties; or commercial and industrial loans to US addressees, as defined in the FDIC Call Report Instructions." The bank originated 485 small business loans totaling \$45 million, during this period. A total of

320 loans for \$27 million were originated to businesses within the bank's assessment area, representing 66.0 percent by number and 59.0 percent by dollar volume.

Refer to the following table for the distribution of small business loans inside and outside the assessment area.

| <i>Distribution of Small Business Loans Inside and Outside of the Assessment Area</i> | | | | | | | | |
|--|-------------------------------|-----------------|--------------------------------------|-----------------|-------------------------------|-----------------|---------------------------------------|-----------------|
| <i>Year</i> | <i>Inside</i> | | | | <i>Outside</i> | | | |
| | <i>Number of Loans</i> | | <i>Dollar in Loans (000s)</i> | | <i>Number of Loans</i> | | <i>Dollars in Loans (000s)</i> | |
| | <i>#</i> | <i>%</i> | <i>\$</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>\$</i> | <i>%</i> |
| 2000 | 128 | 66.7 | 9,659 | 60.5 | 64 | 33.3 | 6,309 | 39.5 |
| 2001 | 89 | 67.4 | 6,538 | 64.5 | 43 | 32.6 | 3,594 | 35.5 |
| 2002 | 103 | 64.0 | 11,105 | 55.1 | 58 | 36.0 | 9,048 | 44.9 |
| Total | 320 | 66.0 | 27,302 | 59.0 | 165 | 34.0 | 18,951 | 41.0 |

Source: CRA Data Collection

The bank's distribution of residential and small business lending reflects a reasonable penetration of lending inside the assessment area.

II. Geographic Distribution by Census Tract Income Level

HMDA-reportable and small business loans located within the bank's assessment area were further analyzed to determine their location by census tract income level.

HMDA-Reportable Loans

The table below shows the number of HMDA reportable loans in comparison to the number of owner-occupied housing units in each census tract. In addition, the bank's HMDA reportable loans were compared to that of all other HMDA-reporters in the assessment area. Other HMDA reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. The most recent data available for this analysis relates to calendar year 2001. Refer to the following table for details.

| <i>Distribution of HMDA Loans by Income Category of the Census Tract</i> | | | | | | |
|---|--|---|--------------------|--------------------|--------------------|---------------------|
| <i>Census Tract Income Level</i> | <i>% Total Owner-Occupied Housing Units</i> | <i>Aggregate Lending Data (% of #)</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>Total</i> |
| | | | | | | |

| | | 2001 | # | % | # | % | # | % | # | % |
|--------------|--------------|--------------|-----------|--------------|------------|--------------|------------|--------------|------------|--------------|
| Moderate | 7.5 | 9.7 | 6 | 6.1 | 4 | 2.2 | 19 | 9.1 | 29 | 5.9 |
| Middle | 53.9 | 47.9 | 62 | 63.3 | 124 | 68.1 | 127 | 61.1 | 313 | 64.1 |
| Upper | 38.6 | 42.4 | 30 | 30.6 | 54 | 29.7 | 62 | 29.8 | 146 | 30.0 |
| Total | 100.0 | 100.0 | 98 | 100.0 | 182 | 100.0 | 208 | 100.0 | 488 | 100.0 |

Source: 1990 U.S. Census, HMDA LAR, and HMDA Aggregate Data

As shown in the above table, 5.9 percent of the bank's total loans for the period under review were within the one moderate-income census tract and closely mirrors the assessment area's owner-occupancy rate of 7.5 percent. There are no low-income census tracts within the bank's assessment area. In addition, the above data shows that the number of loans in middle-income census tracts at 64.1 percent exceeds the percentage of owner-occupied housing units in these areas, while the number of loans in the upper-income census tracts (30.0 percent) is below the percentage of owner-occupied housing units in the area.

As demonstrated above, the percentage of the bank's lending activity in moderate-income census tracts for 2001 is lower than the aggregate. The percentage of HSB's lending activity in the one moderate-income census tract was 2.2 percent. In comparison, the aggregate originated 9.7 percent in the moderate-income census tracts. However, it is noted that that bank's lending in the moderate-income census tract improved in Year 2003, when it made 9.1 percent of its loans in these census tracts.

Small Business Lending

Hudson Savings Bank small business loans were also analyzed to determine the distribution by census tract income level within its assessment area.

The following table depicts this distribution.

| Distribution of Small Business Loans by Income Category of the Census Tract | | | | | | | | |
|--|-------------|--------------|-------------|--------------|-------------|--------------|--------------|--------------|
| Census Tract Income Level | 2000 | | 2001 | | 2002 | | Total | |
| | # | % | # | % | # | % | # | % |
| Moderate | 19 | 14.8 | 5 | 5.6 | 14 | 13.6 | 38 | 11.8 |
| Middle | 71 | 55.5 | 46 | 51.7 | 47 | 45.6 | 164 | 51.3 |
| Upper | 38 | 29.7 | 38 | 42.7 | 42 | 40.8 | 118 | 36.9 |
| Total | 128 | 100.0 | 89 | 100.0 | 103 | 100.0 | 320 | 100.0 |

Source: CRA data collection

Hudson Savings Bank has made a good distribution of small business loans in moderate-income census tracts, originating 11.8 percent over the period examined. The majority of loans were made in middle-income census tracts which also represent the majority of tracts within the assessment area.

Based on the above information, the bank's distribution of HMDA-reportable loans and small business loans by census tract income level reflects a reasonable penetration of loans throughout the assessment area.

III. Borrower Characteristics

HMDA-Reportable Lending

The bank's HMDA- loans were analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family incomes for the Boston-NH Metropolitan Statistical Area (MSA) and the Non-MSA, depending on the location of the property. These income figures are based on estimated Department of Housing and Urban Development (HUD) information. The incomes for the Boston-NH MSA for 2000, 2001 and 2002 are \$65,500, \$70,000 and \$74,200, respectively.

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

HMDA-Reportable Loans

The following table shows the number of HMDA-reportable loans granted to low, moderate, middle and upper-income borrowers in comparison to the number of households in the assessment area in each respective income group. In addition the distribution of the bank's loans among various borrower income levels was compared to that of all other HMDA-reporting lenders in the assessment area. The most recent data available for this analysis is for calendar year 2001. Refer to the following table for details.

| <i>Distribution of HMDA Reportable Loans by Borrower Income</i> | | | | | | | | | | |
|---|---------------------------|--|-------------|----------|-------------|----------|-------------|----------|--------------|----------|
| <i>Median Family Income Level</i> | <i>% Total Households</i> | <i>Aggregate Lending Data (% of #)</i> | <i>2000</i> | | <i>2001</i> | | <i>2002</i> | | <i>Total</i> | |
| | | | <i>2001</i> | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>#</i> |
| Low | 17.9 | 3.0 | 10 | 10.2 | 23 | 12.7 | 19 | 9.1 | 52 | 10.7 |

| | | | | | | | | | | |
|--------------|--------------|--------------|-----------|--------------|------------|--------------|------------|--------------|------------|--------------|
| Moderate | 15.8 | 13.2 | 14 | 14.3 | 44 | 24.2 | 51 | 24.5 | 109 | 22.3 |
| Middle | 20.6 | 23.3 | 33 | 33.7 | 43 | 23.6 | 55 | 26.4 | 131 | 26.8 |
| Upper | 45.7 | 43.6 | 35 | 35.7 | 67 | 36.8 | 64 | 30.8 | 166 | 34.0 |
| N/A | - | 16.9 | 6 | 6.1 | 5 | 2.7 | 19 | 9.1 | 30 | 6.2 |
| Total | 100.0 | 100.0 | 98 | 100.0 | 182 | 100.0 | 208 | 100.0 | 488 | 100.0 |

Source: U.S. Census, HMDA LAR, and HMDA Aggregate Data

HSB extended 52 loans to low-income borrowers representing 10.7 percent of the total loans originated within the assessment area. This is below the 17.9 percent of low-income family households within the assessment area. However, distributions such as this are mitigated by the fact that approximately 5.1 percent of low-income households living below the poverty level making it difficult to generate loans to this group. In addition, the high cost associated with purchasing a home in the assessment area makes homeownership difficult for many individuals.

HSB originated 109 loans to moderate-income borrowers, representing 22.3 of the total originations within the assessment area. This percentage is well above the 15.8 percent of moderate-income family households within the assessment.

As indicated above, the distribution of the bank's 2001 HMDA reportable loans to low-income borrowers are much higher than other HMDA-reporters within the assessment area. The bank originated 12.7 percent of the total loans within the assessment area to low-income borrowers, compared to the aggregate with 3.0 percent.

HMDA-reportable loans to moderate-income borrowers accounted for 24.2 percent within the assessment area and exceeded the aggregate with 13.2 percent.

The bank ranked first in market share in lending to low and moderate-income individuals in the assessment area in 2001. The bank originated 67 loans to low and moderate-income borrowers capturing 7.0 percent of the market. The number two lender to low and moderate-income borrowers was Marlborough Savings Bank with 5.3 percent.

The distribution of HMDA-reportable loans by borrower income demonstrates the bank's willingness to lend to borrowers of all income levels, including those of low and moderate-income and indicates an outstanding performance.

Small Business Lending

Small business loans originated within the bank's assessment area were analyzed to determine the typical loan amount at origination. Of the 320 small business loans originated in the bank's assessment area, 252 or 78.8 percent had original loan amounts of \$100,000 or less. Refer to the table below.

| <i>Distribution of Small Business Loans by Loan Size</i> | | | | | | | | |
|---|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|---------------------|-----------------|
| <i>Loan Size (000s)</i> | <i>2000</i> | | <i>2001</i> | | <i>2002</i> | | <i>Total</i> | |
| | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> |
| < \$100 | 101 | 78.9 | 72 | 80.9 | 79 | 76.7 | 252 | 78.8 |
| \$100 - \$250 | 20 | 15.6 | 10 | 11.2 | 8 | 7.8 | 38 | 11.9 |
| > \$250 - \$1,000 | 7 | 5.5 | 7 | 7.9 | 16 | 15.5 | 30 | 9.3 |
| Total | 128 | 100.0 | 89 | 100 | 103 | 100.0 | 320 | 100.0 |

Source: CRA Data Collection

Small business loans originated within the bank's assessment area during this period were also analyzed to determine the distribution among businesses of various sizes. The following table depicts the distribution of small business loans within the bank's assessment area by revenues of the business.

| <i>Distribution of Small Business Loans by Gross Annual Revenues of Business</i> | | | | | | | | |
|---|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|---------------------|-----------------|
| <i>Gross Annual Revenues (000s)</i> | <i>2000</i> | | <i>2001</i> | | <i>2002</i> | | <i>Total</i> | |
| | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> | <i>#</i> | <i>%</i> |
| <= \$1,000 | 123 | 96.1 | 86 | 96.6 | 98 | 95.1 | 307 | 95.9 |
| > \$1,000 | 5 | 3.9 | 3 | 3.4 | 5 | 4.9 | 13 | 4.1 |
| Total | 128 | 100.0 | 89 | 100.0 | 103 | 100.0 | 320 | 100 |

Source: CRA Data Collection

As the above table indicates, the clear majority of loans or 95.9 percent were made to businesses with gross revenues under \$1 million dollars.

Based on the information above, the bank's lending to borrowers of different income levels and businesses of various sizes with small business loans reflects an excellent distribution.

IV. Community Development Lending

HSB has granted a marginally adequate level of qualified community development loans.

Community development includes providing affordable housing for low and moderate-income individuals, promoting activities for economic development by financing small businesses, and lending that revitalizes or stabilizes low or moderate-income geographies. A community development loan is a loan that:

- Has as its primary purpose community development;
- Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family dwelling loan; and
- Benefits the bank's assessment area or a broader statewide or regional area that includes the assessment area.

The bank's community development lending is less than adequate for an institution of its size and resources. However, due to the economic climate and the competitive environment of the assessment area, opportunities for participation in community development projects are somewhat limited in the local area.

The bank's community development lending involves lending to multifamily dwellings which provide housing for tenants who may not be able to afford the cost of a home.

In 2000, 2001 and 2002, the bank made 28 multi-family loans totaling \$7.3 million. Of these, 11 loans totaling \$3.1 million were originated within the bank's assessment area. In addition, three of the loans originated in the assessment area were in the one moderate-income tract.

Although reported as a small business loan, in 2002, the bank granted a \$450,000 to a non-profit community hospital located within the bank's assessment area. The purpose of the loan was to refinance existing debt held by another lender. The hospital maintains a "Community Benefit Program" designed to provide health care and social services to the community, centered on low-income families, the Latino community, substance abusers, the elderly, children and teenagers. Free care is available for patients who fall within the federal poverty income guidelines. While a small business loan, this loan is considered to have community development intent.

V. Innovative or Flexible Lending Practices

Hudson Savings Bank participates in a variety of flexible loan programs aimed at meeting the credit needs of low and moderate-income homebuyers and small businesses. Details of these programs are as follows.

In-House Programs

On May 17, 2002 the bank introduced a 7/3 ARM with 2%/3% caps to first time homebuyers within the assessment area. This discounted ARM loan is made for the bank's portfolio and is usually priced below the bank's portfolio fixed rate product. The rate is fixed for the first seven years and adjusts according to the three-year treasury index every three years thereafter. During 2002 the bank originated two loans totaling \$295,110.

In addition to originating residential mortgage loans that conform to secondary market investor standards Hudson Savings Bank also originates non-conforming residential loan products for its own portfolio. These loans enable borrowers to obtain financing for owner-occupied housing that would otherwise not be available due to factors such as non-conforming income ratios and credit history. In 2001 the bank originated 37 such loans totaling \$7,250,000 and in 2002 the bank originated 35 loans totaling \$6,197,200.

Massachusetts Housing Finance Agency (MHFA)

Municipal Mortgage Program

During 2001, the bank in partnership with Mass. Housing introduced the Municipal Mortgage Program. Under this program, the bank offers 100 percent financing to qualified borrowers who are full-time municipal employees and wish to purchase a single family home or condominium in the city/town where they work. Terms include lower interest rates, lower attorney's fees, and flexible underwriting ratios. No loans were originated in 2001. During 2002, the bank originated two loans totaling \$389,000.

Business Program

Hudson Savings Bank is a participant in the Brownfields Redevelopment Access to Capital (BRAC) Program. This is a state subsidized program that enables loans for business purposes on contaminated sites with environmental insurance and loan guaranties and is administrated by Massachusetts Business Development Corporation. In 2002, the bank originated one loan for \$2,000,000.

VI. Fair Lending Policies and Practices

Hudson Savings Bank's fair lending data was reviewed to determine how it relates to the guidelines established by Regulatory Bulletin 2.3-101, the Division's Community Reinvestment and Fair Lending Policy.

Bank management ascertains the credit needs of the assessment area through their involvement in several area community organizations and programs. The bank markets its services and products to the community through a variety of media including print, television, radio, and the Internet. Seminars are also conducted in order to make potential customers aware of the services the bank provides.

The bank has established a formal Second Review Program that requires all residential real estate related applications that are slated for denial to be reviewed by a Senior Loan Officer before an adverse action notice is sent out. The purpose of the review is to ensure that all the reasons stated for the denial are sound and that all applicants are treated in a fair and equitable manner. Management reviews its HMDA/LAR data annually.

MINORITY APPLICATION FLOW

The bank's assessment area contains 59,801 individuals, 3,317 or 5.5 percent of whom are minorities. The assessment area's minority population is 0.1 percent Native American, 1.5 percent Asian, 1.3 percent Black, 2.5 percent Hispanic and 0.1 percent Other Race.

A review of residential loan applications was conducted in order to determine the number of applications the bank received from minorities. The bank received 586 residential loan applications from within its assessment area. During the period under review, 23 applications or 4.0 percent were received from minorities. Of these, 18 or 78.3 percent were approved. Refer to the following table for further details.

| MINORITY APPLICATION FLOW | | | | | | | | | | |
|---------------------------|-------------------------|--------------|--------------|--------------|--------------|--------------|------------------|--------------|---------------|--------------|
| RACE | Aggregate Data* 2001 | | Bank 2000 | | Bank 2001 | | Bank YTD 2002 | | Bank TOTAL | |
| | # | % | # | % | # | % | # | % | # | % |
| <i>Native American</i> | 22 | 0.3 | 0 | 0.0 | 0 | 0.0 | 1 | 0.4 | 1 | 0.2 |
| <i>Asian</i> | 165 | 2.3 | 0 | 0.0 | 0 | 0.0 | 1 | 0.4 | 1 | 0.2 |
| <i>Black</i> | 50 | 0.7 | 1 | 0.9 | 1 | 0.5 | 2 | 0.8 | 4 | 0.7 |
| <i>Hispanic</i> | 163 | 2.3 | 3 | 2.5 | 1 | 0.5 | 8 | 3.2 | 12 | 2.0 |
| <i>Joint Race</i> | 100 | 1.4 | 0 | 0.0 | 0 | 0.0 | 1 | 0.4 | 1 | 0.2 |
| <i>Other</i> | 112 | 1.5 | 0 | 0.0 | 2 | 0.9 | 2 | 0.8 | 4 | 0.7 |
| Total Minority | 612 | 8.5 | 4 | 3.4 | 4 | 1.9 | 15 | 6.0 | 23 | 4.0 |
| <i>White</i> | 4,337 | 60.0 | 108 | 91.5 | 212 | 96.7 | 209 | 83.9 | 529 | 90.3 |
| <i>NA</i> | 2,278 | 31.5 | 6 | 5.1 | 3 | 1.4 | 25 | 10.1 | 34 | 5.7 |
| Total | 7,227 | 100.0 | 118 | 100.0 | 219 | 100.0 | 249 | 100.0 | 586 | 100.0 |

*Source: PCI Services, Inc., CRA Wiz Software.

The bank's minority application flow for this review period was compared with the racial make-up of the assessment area. In addition, the bank's application flow was compared to the 2001 aggregate data for all other HMDA reporters within the assessment area. The

comparison of this data assists in deriving reasonable expectations for the institution's application flow.

The bank's minority application flow falls slightly below the racial composition of its assessment area. In addition, Hudson Savings Bank's minority application flow when compared to the other lenders within the assessment area is below the aggregate for the year 2001 in all Races.

There was no evidence of discriminatory credit practices based on the file review and an evaluation of the loan application process.

VII. Loss of Affordable Housing

The bank's participation in community development projects and government lending programs, along with its various flexible lending products has assisted low and moderate-income individuals to remain in their neighborhoods.

CONCLUSION - Lending Test

Taking into account the number and amount of home mortgage and small business loans originated in its assessment area, Hudson Savings Bank has demonstrated a good responsiveness to the assessment area's credit needs. The bank's lending demonstrates an excellent distribution of loans among individuals of different income levels and businesses of different sizes. The bank has an established record of serving the credit needs of low and moderate-income individuals, and businesses with gross annual revenues of \$1 million or less. In addition, the bank was the number one lender to low and moderate-income individuals in 2001. The bank's only community development loans are multi-family loans. However, opportunities within the bank's assessment area are rare and competition from other financial institutions makes it difficult to find any community development loans. In addition, the bank's fair lending performance was found to be strong at this time. Based upon these findings, especially its performance in lending to low and moderate-income individuals, HSB's lending performance receives an overall rating of High Satisfactory.

INVESTMENT TEST

As defined under the CRA regulation, a qualified investment is a lawful investment, deposit, membership share or grant that has community development as its primary purpose. Community development includes affordable housing for low and moderate-income individuals, community services targeted to low and moderate-income individuals, activities that promote economic development by financing small businesses or small farms, and activities that revitalize or stabilize low and moderate-income geographies. In recognition of the many legal limitations on bank investments, and the long-term nature and complexity of many community development investments, the CRA regulation allows some reasonable consideration for the entire bank portfolio of qualified investments; not just those made since the previous CRA examination. The following describes the institution's qualified investments.

Hudson Savings Bank's qualified investments indicate an adequate responsiveness to its assessment area's credit and economic development needs since the last examination. The bank's investment portfolio totals \$94.5 million and comprises only 20.3 percent of total assets. The investments consist primarily of Government Agency securities, mortgage backed securities, and other marketable securities.

On August 15, 2001, the bank purchased \$500,000 in Access Capital Strategies Community Investment fund, Inc. (the "Fund"). The Fund is a SEC-registered fund structured as a Business Development Corporation ("BDC") under the Investment Act of 1940. The Fund invests in private placements of CRA-related assets with AAA-rated credit enhancements, including affordable housing, commercial real estate, home mortgages, small business and student loans. As a BDC, the Fund also provides technical and managerial assistance to recipients of Fund investments. The bank has targeted its assessment area for investment by the Fund.

On February 26, 2003, the bank entered into a lease agreement with the Hudson Food Pantry whereby the bank would lease a parcel of land located at 1 Houghton Street in Hudson for a Nominal \$200 per month. This parcel was used by the bank to house a trailer during construction of an addition to the main office. The Food Pantry will put up a structure to use for storage of its food to be distributed. The approximate value of the parcel is \$170,000.

Charitable Contributions

The bank has provided contributions to organizations that provide education and training, affordable housing, youth programs, and health and human services for individuals in need. In 2001 and 2002, the bank provided \$61,550 and \$79,250, respectively, in qualified contributions and grants, in support for development of facilities, which promote community development, as defined under the CRA regulation.

The greater portion of these contributions were derived from the Hudson Savings Charitable Foundation. This Foundation was formed in 1997 with a \$500,000 endowment, as a means to provide donations to various organizations in and around the bank's assessment area. The Foundation meets quarterly to review grant proposals of \$1000 or more. During 2001, the Foundation granted \$104,600 in contributions. Of these, \$56,000 or 53.5 percent were qualified contributions. During 2002, the Foundation granted \$111,000 in contributions, of which \$71,550 or 64.5 percent were qualified.

The following are examples of the organizations receiving these contributions:

South Middlesex Opportunity Council, Inc (SMOC): SMOC is a private nonprofit corporation that operates as the Community Action Agency for the greater MetroWest and Blackstone Valley Area. The purpose of this corporation is to mobilize and utilize both public and private resources to advocate for and meet the needs of low-income individuals. SMOC's goal is to provide a better quality of life for low-income individuals by working within the community to effect social, individual and family change. The bank helps support the organization's food pantry with annual donations. In addition, the bank contributes to SMOC's adult literacy education programs, which benefit mostly low-income single mothers enabling them to pass the GED examination and subsequently acquiring economic independence.

Maynard Adult Learning Center (MALC): This center offers free educational programs to adults who live in Maynard and surrounding communities. These programs include free classes to help adults learn English and obtain their GED. This center is publicly funded and receives yearly grants from the Massachusetts Department of Education. All students receive free services and books.

Wachusett Health Education Action Team (WHEAT): The mission of this organization is to assist low-income people and their families within the five towns of Berlin, Bolton, Clinton, Lancaster and Sterling by providing information and referral, housing counseling, food distribution and other services vital to their well being.

Saint Michael's Parish Scholarship Fund: The monies donated to this fund are for those students that are in need of financial assistance.

Homeowner Options for Massachusetts Elders (H.O.M.E.): H.O.M.E. is a statewide non-profit organization that assists low and moderate-income elder homeowners with remainder of life planning. H.O.M.E. provides in-home comprehensive counseling as well as identifying available housing and financial resource options for elder homeowner clients.

First United Methodist Church: The bank supports the Church's Open Door Medical Program. The mission of this program is to provide free walk-in health care services, one evening a week, to uninsured or under-insured people in the Hudson-Marlborough area.

Hudson Community Partnerships for Children (HCPC): HCPC is a non-profit program provides affordable and high-quality preschool and childcare services to working families of Hudson that are financially “at risk” with preschool children.

Consumer Credit Counseling of Massachusetts: This non-profit organization provides financial counseling and educational programs for families and individuals Boston office. Services provided by this organization include seminars on budgeting, money management, and credit histories.

CONCLUSION - Investment Test

As depicted above, HSB has shown a willingness to participate in qualified community development investments, and has exhibited good responsiveness to credit and community economic development needs. The bank’s level of donations to local community organizations is also significant. Therefore, the bank’s investment performance is rated High Satisfactory.

SERVICE TEST

The Service Test evaluates an institution’s record of helping to meet the credit needs of residents within its assessment area by analyzing both the availability and effectiveness of an institution’s systems for delivering retail banking services and the extent and innovativeness of its community development services. As depicted below, Hudson Savings Bank has illustrated an excellent level of services within its assessment area, including the delivery of retail services and community development service activities.

The bank’s systems for delivering retail-banking services are accessible to geographies and individuals of all income levels throughout its assessment area. The bank’s retail services, including business hours, are tailored to the convenience and needs of its assessment area.

Additionally, Hudson Savings Bank’s officers and employees at all levels have taken active roles in providing community development services to groups and individuals throughout the assessment area. The following describes the institution’s retail and community development services.

RETAIL BANKING SERVICES

Distribution of Branches

Hudson Savings Bank, a Massachusetts chartered savings bank, is headquartered in Hudson at 42 Main Street (Route 62), which is designated as a middle-income census

tract. In addition to its main office, Hudson Savings Bank operates three full-service branch offices located on Washington Street in Hudson, one in Marlborough and its newest branch in Clinton.

Services and hours of operation are competitive and afford accessibility to all segments of the bank's assessment area. Office hours for the bank's offices vary, but each office has extended hours either Thursday and/or Friday evenings and all offices are opened on Saturday.

Record of Opening and Closing Branches

HSB maintains a Branch Opening and Closing Policy that is reviewed and approved on an annual basis by the Board. No banking offices have been closed since the previous examination. In September 2002, the bank opened a branch in Clinton.

Alternative Retail Banking Services

All office locations offer the convenience of drive-up window service.

Automated Teller Machines (ATMs) are also available 24 hours a day at each office location. The two ATMs in Hudson are bilingual (English & Portuguese) and the ATM in Marlborough offers English & Spanish. The bank is also a member of the SUM network, which is a surcharge-free alliance of several financial institutions that include over 1,000 ATMs throughout Massachusetts. The bank's customers can avoid ATM surcharges by conducting business at alliance members' ATMs that bear the SUM logo. In addition, the bank maintains cash dispensing only ATMs at the Pleasant Street Market in Marlborough and in Buscemi's Convenience Store in Hudson.

Currently, there are 22 bilingual employees to assist the non-English speaking customers and potential customers at the bank. Second languages include French, Portuguese, Spanish and Italian. As a result, the bank is able to provide better service to customers of different ethnic backgrounds.

The bank offers customers 24-hour account access through its automated telephone banking system "Informant Telephone Banking". By utilizing this toll-free system, customers can access their accounts, obtain balance inquiries, transfer funds from one account to another and pay bills over the telephone (using Bill Express). Bill Express charges \$3.50 monthly fee for this bill paying service, while the telephone banking system is free.

Customers and potential customers can obtain general bank information such as hour, branch location, products and services, etc., through the bank's web site at

www.hudsonsb.com. In addition, regular customers are able to transfer funds between accounts, check account balances and check status and pay bills (using Bill Express).

Other Retail Services

The bank offers “Basic Checking” accounts, which meet the guidelines of the Basic Banking for Massachusetts program. The above services assist low and moderate-income individuals establish banking relationships.

The bank participates in the “Savings Makes Cents” program sponsored by the Massachusetts State Treasurer’s Office. At the present time, the bank is offering this program at four schools in Hudson.

COMMUNITY DEVELOPMENT SERVICES

The CRA regulation defines a community development service as a service whose purpose is primarily community development and is related to the provision of financial services. Various bank officers and employees represent the bank by serving on numerous community development service organizations. Through their involvement, the bank’s staff lends their technical expertise, experience and judgement to these organizations. The following involvement by bank personnel is a sample of Hudson Savings Bank’s commitment to its assessment area:

United Way of TriCounty: This organization covering Middlesex, Norfolk and Worcester Counties offers community services targeted to low and moderate-income individuals. Approximately 70 percent (estimated) of funds are directed to low and moderate-income individuals. A Senior Vice President is the Treasurer and a Vice President is a member of the allocations committee of this organization.

Hudson Community Food Pantry: This non-profit organization distributes food to the needy in the Towns of Hudson, Berlin and Bolton. A Vice President is a volunteer with this group and a Corporator is President and Chairman of the Board of Directors.

Bay Path Home and Community Services, Inc. The bank participates in “The Money Management Program” administered by this non-profit agency that serves 14 communities in the Metrowest region, including Hudson and Marlborough. Two bank employees assist senior citizens organize and pay bills, reconcile monthly bank statements, write checks and balance checkbooks.

Assabet Valley Chamber of Commerce: This Chamber covers Hudson, Bolton, Berlin, Stow and Maynard. A Vice President and a Corporator serve as board members of this organization.

Hudson Downtown Business Roundtable Committee: This committee of the Assabet Valley Chamber of Commerce involves issues of the rehabilitation and development of Main Street, Hudson. A Vice President and a Corporator serve on this committee.

Woman's Business Advisory Network: This is a group within the Wachusett Chamber of Commerce that covers Berlin, Bolton, Boylston, Clinton, Harvard, Lancaster, South Lancaster, Sterling and West Boylston. The main purpose of the group is to help women within the Chamber to network and learn about issues currently facing them. An Assistant Vice President was a founding member of this group.

Boys & Girls Club of Metro West: This is a non-profit organization, which operates a facility where children, many of whom are from low and moderate income families, can participate in a variety of recreational activities in a secure, supervised environment

Educational Services and Seminars

HSB has conducted and participated in seminars designed to educate consumers about banking and products available to meet their specific needs. These events provide opportunities for bank representatives to inform those in attendance about the products and services that are offered by the bank and to gain information about credit needs in the community. The bank's involvement since the previous examination is detailed below.

During 2002, the bank conducted three First Time Homebuyer Seminars. Two were held at the bank's Marlborough branch and one was held at the main office. Topics discussed at each seminar included: shopping for a home, obtaining a mortgage, home inspection and mortgage closings. In addition, during the examination, a seminar was conducted at the bank's new branch in Clinton.

CONCLUSION - Service Test

In summary, HSB's systems for delivering retail-banking services are readily accessible to geographies and individuals of different income levels within its assessment area. The bank provides a high level of community development services. Bank management and employees have taken leadership roles in organizations that promote economic development or target the revitalization of business communities. Therefore, the bank's service test is considered to be High Satisfactory.

APPENDIX A

SCOPE OF EXAMINATION

Hudson Savings Bank has one assessment area, which was reviewed using the examination procedures for large banks.

The CRA evaluation included HMDA-reportable loans and small business loans. The time period used was January 1, 2000, to December 31, 2002.

The bank's qualified investments were also reviewed and exhibit a good responsiveness to credit and community economic development needs.

In addition, the bank's systems for delivering retail banking services and the provision of community development services were considered.

All of the bank's locations are in the Boston-MA Metropolitan Statistical Area (MSA).

Internal analysis generated by management was reviewed during the examination, as was comparative data for the assessment area obtained from CRA WIZ. The examination also included a review of the bank's Public File, which contained no negative CRA-related comments.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

HUDSON SAVINGS BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **MARCH 3, 2003**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.